# THE FREEMAN

IDEAS ON LIBERTY

**What is a Just International Economic Order?**

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JANUARY 1986

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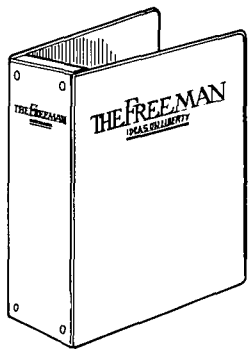


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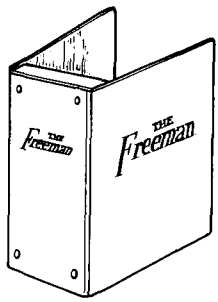


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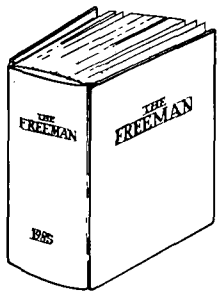


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# To Our Readers

You care about freedom. That is one reason you read *The Freeman*. For thirty-five years it has been the most important first source for ideas on liberty. Beginning in this issue, those ideas are clothed in a new size and design.

This change in design is not the first in the *The Freeman*'s history, but it is the most extensive. We have enhanced the appearance of *The Freeman* to make it easier for you to use and read, and more inviting from cover to cover.

The new format will also help us to present our ideas more clearly and noticeably to *new* generations of business people, educators, students, and others who aren't familiar with the freedom philosophy. This is one of our continuing goals and one we hope you share.

## FEE's Anniversary

Now is an auspicious moment for such a change. First of all, 1986 marks the 40th anniversary of The Foundation for Economic Education. The case for the free market economy was rarely heard in 1946. It is to the great credit and vision of the late Leonard E. Read and the other members of The Foundation staff that FEE and *The Freeman* have constantly and consistently explored the freedom philosophy when other organizations and publications have had erratic lives. Today, there is a much wider understanding of the principles which serve as the basis of our freedom and prosperity. This is due in no small part to the efforts of FEE and *The Freeman*.

January also begins *The Freeman*'s thirty-sixth year—another remarkable accomplishment. *The Freeman*'s heritage, however, reaches back even further. A very different *Freeman* began in 1920 through the efforts of a number of brilliant men and women under the tutelage of Albert Jay Nock. His enterprise lasted four years.

Efforts to resurrect it were particularly successful in 1950 when Henry Hazlitt, John Chamberlain, and Suzanne LaFollette launched the current *Freeman*. They did so, they wrote, to meet the "urgent need in America for a journal of opinion devoted to the cause of traditional liberalism and individual freedom." (We are very pleased that both Henry Hazlitt and John Chamberlain still write regularly for us.)

*The Freeman* was first housed at FEE beginning in July 1954, under the editorship of Frank Chodorov. In January 1956, *The Freeman* changed format and became the primary outlet for FEE materials, with Paul Poirot as managing editor. It continues in that capacity today. During this time, *The Freeman* has presented and interpreted the freedom philosophy with fairness, honesty, and skill. For many individuals, it has been the beginning of a lifelong dedication to liberty. *The Freeman* is indebted to hundreds of fine authors and thousands of readers and FEE supporters for its success.

## A Rededication to Principle

As you and 70,000 other individuals read through this and subsequent issues, you will find the same dedication to freedom that has graced these pages since FEE began publishing *The Freeman*. Our job is to provide the principles and facts necessary for interested readers to develop their own understanding of freedom. In a very

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real sense, we are all students of liberty in the pursuit of those things that are peaceful and creative.

Attaining full liberty in America, and indeed throughout the world, is a complex and exciting challenge. Many people seek the answer in politics and policy studies. But unless there is a clear understanding of the root ideas of a free market society and the moral basis of individual liberty, there can be no lasting freedom. To that purpose *The Freeman* is dedicated.

Whether you view yourself as a conservative, libertarian, or classical liberal, there is a common ground we share as we strive to loosen those bonds which restrict human creativity, individuality, and self-fulfillment. Nobel Prize winner F. A. Hayek described "our common task" at FEE as *"the defense of our civilization against intellectual error."* That remains the challenge before us.

## A Note about Me

I have been working at FEE for over a year now, and I have been editing *The Freeman* for a number of months. To many of you I am a new name, so let me introduce myself.

My background includes extensive experience in foundation work and, for fifteen years, I have worked as a book and magazine editor and publisher. I have also devoted time to writing on various topics of libertarian history.

I first read *The Freeman* while in high school. Troubled by an article on monopoly, I wrote for an explanation. Within a week I received a letter from Leonard E. Read and then a packet of material from Bettina Bien Greaves. I was so impressed that I sent in a $12 donation. I had no idea then that, twenty-three years later, I would be part of a great FEE tradition! I'm hoping—after you read a few issues—that you will decide to keep me on.

*Charles H. Hamilton*
*Editor*

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*The Freeman* considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

Cover photo of the home of The Foundation for Economic Education by Perry Alan Werner.

Design by Beth Whitaker

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# THE FREEMAN

IDEAS ON LIBERTY


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A PAGE
ON
FREEDOM
#27

# The Market and the State

by Ludwig von Mises

For every species of animal and plant the means of subsistence are limited. Hence every living being's vital interests are implacably opposed to those of all members of its own species. Only human beings know how to overcome this irreconcilable nature-given conflict by embarking upon cooperation. The higher productivity of work performed under the principle of the division of labor substitutes for the grim antagonism created by the scarcity of food the solidarity of interests of people intentionally aiming at common goals. The peaceful exchange of commodities and services, the market process, becomes the standard type of interhuman relations. Mutual agreement of the parties displaces the recourse to violence, to the law of the stronger.

The market in the broadest sense of the term is the process that encompasses all voluntary and spontaneous actions of men. It is the realm of human initiative and freedom and the soil upon which all human achievements thrive.

The state, the power protecting the market against destructive recourse to violence, is a grim apparatus of coercion and compulsion. It is a system of orders and prohibitions, and its armed servants are always ready to enforce these laws. Whatever the state does, is done by those subject to its commands. State power forced its subjects to build pyramids and other monuments, hospitals, research institutes, and schools. People see these achievements and praise their authors to the skies. They do not see the buildings that state power destroyed, nor those that were never constructed because the government had taxed away the means that individual citizens had destined for their erection.

The fundamental antagonism between the realm of mutual peaceful agreement and that of compulsion and coercion cannot be eradicated by idle talk about two "sectors" of the economy, the private and the public. There is no conciliation between constraint and spontaneity. The attempts to resuscitate the totalitarianism of the Pharaohs of Egypt or of the Incas of Peru are doomed. And violence does not lose its antisocial character by being re-baptized "non-violence." All that man has created was a product of voluntary human cooperation. All that violence has contributed to civilization consists in the—certainly indispensable—services it renders to the endeavors of peace-loving people to restrain potential peace-breakers. □

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# The Freedom to Move

**Can we hope to explain the blessings of freedom to foreign people while we deny them the freedom to cross our boundaries?**

by Oscar W. Cooley and Paul L. Poirot

Oscar Cooley, a retired economics professor, is a regular columnist for the Freedom Newspapers. Paul Poirot is a member of the staff of The Foundation for Economic Education and is publisher of *The Freeman*.

This article is excerpted from a pamphlet originally published by FEE in 1951.

Freedom of movement underlies the concept of private property rights. A person has the right to exclusive possession and use of that which he has assembled and improved without trespass against others—the right to the product of his own labor. Any move of a man might be deemed proper and beneficial when he acts to assemble, transport, or otherwise convert the free gifts of Nature so that they may satisfy human needs more readily. This involves no infringement on the equal right of others. It would seem to be the kind of movement that should not be discouraged by man or by government.

On the other hand, freedom of movement may lead to trespass. A person may move or act in such a way as to threaten the life, or to seize or damage the property, of someone else. His apparent personal gain would be at the direct expense of another person. Surely, government should lend no encouragement to such harmful actions or threats of harm by individuals.

The problem of society, then, is to permit and encourage individuals to move and act in a productive and beneficial manner, and to avoid harmful intervention or trespass. The founding fathers wisely depended upon voluntary exchange—freedom of trade in the competitive market place—as the automatic, non-governmental guide to productivity and progress among men. They delegated to government the power to restrict only those actions of individuals designed to circumvent the free market through fraud, deceit, or coercion. The penalty for violation was restitution for damages, or imprisonment, or some other restraint upon that person's freedom to act or move.

The freedom of the individual to move toward greener pastures, wherever they may seem to be, has been a vital part of the freedom of commerce—the freedom of choice that has constituted the truly distinctive characteristic of "the American way."

In view of our long experience of near-perfect freedom to move about as each might choose, some of us may not realize the limitations that confront people in many other parts of the world who might like to move toward something better. Many who might choose to enter the United States, peacefully observing our laws and paying their own way, are denied entry. Our community slogans now seem to read: "Welcome to all peaceful and productive newcomers—except foreigners." And a foreigner here is an individual who has crossed a

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special political line, supposedly which bounds "the land of the free"!

If it is sound to erect a barrier along our national boundary lines, against those who see greater opportunities here than in their native lands, why should we not erect similar barriers between states and localities within our nation? Why should a low-paid worker—"obviously ignorant, and probably a Socialist"—be allowed to migrate from a failing buggy shop in Massachusetts to the expanding automobile shops of Detroit? According to the common attitude toward immigrants, he would compete with native Detroiters for food and clothing and housing. He might be willing to work for less than the prevailing wage rate in Detroit, "upsetting the labor market" there. His wife and children might "contaminate" the local sewing circles and playgrounds with foreign ways and ideas. Anyhow, he was a native of Massachusetts, and therefore that state should bear the full "responsibility for his welfare."

Those are matters we might ponder, but our honest answer to all of them is reflected in our actions—we'd rather ride in automobiles than in buggies. It would be foolish to try to buy an automobile or anything else in the free market, and at the same time deny any individual an opportunity to help produce those things we want.

Our domestic relationships would be harmed seriously by restraints upon man's freedom to migrate. But why shouldn't the same reasoning hold for our foreign relationships?

**Fear No. 1: The "melting pot" might fail to assimilate newcomers.** This notion has as little merit as the idea that a third-generation Yankee's digestive tract isn't capable of assimilating a bunch of carrots grown by a foreign-born Japanese or Italian vegetable gardener. The assimilation of a foreign-born person is accomplished when the immigrant willingly comes to America, paying his own way not only to get here but also after he arrives, and peacefully submitting to the laws and customs of his newly adopted country. Freedom to exchange goods and services voluntarily in the market place is the economic catalyst of the American "melting pot." Christian-like morality is the social catalyst—and if it has come to be in short supply among native Americans, the blame for that shortage should not be laid upon our immigrants.

**Fear No. 2: The "wrong kind" of people might come to America.** The danger that "a poorer class" might come from Asia or Africa or Southern and Eastern Europe and contaminate our society, undoubtedly seems real to any person who thinks of himself as a member of a superior class or race. Such a person, like any good disciple of Marx, is assuming the existence of classes and is convinced that he is qualified to judge others and to sort them into these classes.

Perhaps what is feared is the importation of a new idea of the relationship between the individual and his government. If that has been our fear, it very well might have been justified. For America has been rapidly substituting a socialistic state control for the traditional system of private enterprise. But let us not mistake persons for ideas; the ideas are the root of the problem. Migration of persons is not a reliable measure of the flow of ideas.

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**Fear No. 3: Immigrants might deprive our own workers of jobs and depress the wage scale.** The fear that immigrants might take the jobs of American workers is based on the fantasy that the number of jobs to be filled within our economy is strictly limited. Individuals still do—and undoubtedly always will—entertain unsatisfied desires for more and more goods and services, which industrious and ingenious individuals constantly are producing in response to opportunities. If there is freedom to think, to trade, and to move, then opportunities for new, creative jobs are not limited to the wilderness or a spot of idle land.

The fear that heavy immigration of workers would depress the wages of native workers is an outgrowth of socialist doctrine. Socialism is so concerned with consumption and "equitable distribution" that it neglects the source of production. It fails to recognize that there can be more and more to consume only if capital and tools are first produced to give leverage to the productive power of man.

Can we hope to explain the blessings of freedom to foreign people while we deny them the freedom to cross our boundaries? To advertise America as the "land of the free," and to pose as the world champion of freedom in the contest with communism, is hypocritical, if at the same time we deny the freedom of immigration as well as the freedom of trade. And we may be sure that our neighbors overseas are not blind to this hypocrisy.

A community operating on the competitive basis of the free market will welcome any willing newcomer for his potential productivity, whether he brings capital goods or merely a willingness to work. Capital and labor then attract each other, in a kind of growth that spells healthy progress and prosperity in that community. That principle seems to be well recognized and accepted by those who support the activities of a local chamber of commerce. Why do we not dare risk the same attitude as applied to *national* immigration policy?

Our collective abandonment of the economic system of the free market leaves for us the controlled communal life, where everyone wants to be a consumer without producing anything.

## The Basic Problem

Our immigration policy merely reflects the existence of this serious internal problem in America. Our present policy toward immigrants is consistent with the rest of the controls over persons which inevitably go with national socialism. But the controlled human relationships within the "welfare state" are not consistent with freedom. Great Britain once thought she could deny freedom to American colonists. And now, her own people have traded their freedom for nationalized austerity. Even a "prosperous" modern America can ill afford traveling that same course. If we do, our community, too, will lose its capacity to attract newcomers. Then we wouldn't need an immigration policy. But who among us would want to remain in a community where opportunities no longer exist? □

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# What About Immigration?

**Immigrants invigorate the country and contribute healthy economic benefits.**

by Julian L. Simon

Julian L. Simon teaches at the University of Maryland and is a fellow at the Heritage Foundation and the Cato Institute. He is the author of *The Ultimate Resource.*

Immigration is one of the most important topics of our times. The issue seems to pit (though it really does not) two fundamental values against each other—lending a helping hand to strangers and ensuring the economic self-interest of family and community. Also involved are values that may not appeal to all but which are in no way irrational, such as the desire to maintain some degree of cultural or racial homogeneity in the country, and to keep a particular political balance. Hence it arouses interest and passions to an unusual degree.

Passions have *always* been aroused over the question of immigration. Even before the independence of this nation, some natives and earlier immigrants inveighed against admitting "alien influences" to these shores. A recent study by Rita J. Simon shows that public opinion toward immigration has been hostile at almost all times in the past century. But while Americans express negative views toward admitting more immigrants in general, they express positive feelings toward the immigrants whom they know personally.[1]

Immigration is particularly salient now. For only the fourth time in this decade, *Time* magazine devoted its July 8, 1985 contents to a special issue—this time on immigration. In this, the largest editorial issue in its history, *Time*'s publisher wrote that sentiment about immigration today "represented a change of historic dimensions."

Here are some possible reasons why this topic is so high on the public agenda:

- Americans' mood about their economic situation is less optimistic than in most other periods since World War II. The idea that immigrants take jobs from natives seems particularly unpleasant in such a period.
- Environmental organizations—worried about the effects of more persons upon the environment and upon the supply of natural resources—have joined forces with anti-population-growth organizations (such as the Environmental Fund) and special-interest anti-immigration organizations (such as the Federation for American Immigration Reform, FAIR) in an umbrella organization called Global Tomorrow Coalition.

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The combined weight of these organizations, with their membership of more than five million, constitutes a large body of anti-immigration sentiment.

- The dramatic waves of refugees in recent years from Vietnam, Haiti, and Cuba have drawn much attention to immigration. American citizens seem to have been less sympathetic to these refugees than to refugees from Hungary and Czechoslovakia in the 1950s and 1960s.
- Congress has not passed a comprehensive immigration law since 1965. The anachronisms and law-bending complications that inevitably accumulate with time have become troublesome, suggesting that a "reform" might be timely.
- The absolute number of immigrants arriving has been greater recently than at any time since the 1920s.
- The racial composition of immigrants has shifted, due in considerable part to the 1965 law, and now includes more Orientals and Mexicans (legal and illegal), and fewer Europeans.

Whereas the objections to immigration expressed in past years often were simply the crude bigotry of race and religion, the objections heard now (though they are not necessarily the real objections) are mostly economic. Let us then address the economic issues in order to engage in honest dialogue with those whose objections are truly economic, as well as to try to cut the ground from under those who cloak other objections against immigration in economic guise. Let us examine three issues: Are we being swamped by immigrants? Does immigration increase unemployment? And do immigrants pay their way?

## What Is the Level of Immigration Today?

Many people assume, as FAIR says, that "immigration to the United States is at record levels."[2] Yet only in 1980, when an exceptionally large number of refugees arrived, were the numbers of legal immigrants even two thirds of the numbers in peak years around the turn of the century, and the recent numbers as a whole clearly are far smaller than the numbers then. Nor does the inclusion of illegal immigrants alter this conclusion, as we shall see shortly.

From the point of view of the economic impact on natives, more appropriate than these absolute numbers is the volume of immigration as a proportion of the native population. The immigrants who arrived between 1901 and 1910 constituted 9.6 per cent of the population, whereas between 1971 and 1980 immigrants constituted only two per cent of the population. So the recent flow is less than a sixth as heavy a burden for the native population to absorb as it was in that earlier period.

Another way to think about the matter: In 1910, 14.6 per cent of the population was foreign born. In 1980, only 6 per cent of the population was born abroad. Not only is the present stock of immigrants only about a third as great proportionally as it was earlier, but it also is a small proportion considered by itself. That is, less than one person in 15 in the U.S. now was born abroad, including those who arrived many years ago. We tend to think of ourselves as a "nation of immigrants," but the U.S. has a smaller share of foreign-born persons than do many countries that we tend to think of as closed homoge-

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***"The U.S. has a smaller share of foreign-born persons than do many countries that we tend to think of as closed homogeneous populations—including Switzerland, France, Great Britain, and even Sweden."***

neous populations—including Switzerland, France, Great Britain, and even Sweden.

The anti-immigration groups cannot dispute these numbers, because they come from standard sources. But they say illegal immigration is so large as to make meaningful the claim that immigration is at a record level in absolute terms. By now, however, demographers have a quite solid understanding of how many illegals are in the U.S. At the request of the Select Commission on Immigration and Refugee Policy, a blue-ribbon team of demographers from the Bureau of the Census surveyed the wide variety of studies that have been done, and concluded, "The total number of illegal residents in the United States for some recent year, such as 1978, is almost certainly below 6.0 million, and may be substantially less, possibly only 3.5 to 5 million." As to Mexicans, they estimated that there are "almost certainly less than 3.0 million, and may be substantially less, possibly only 1.5 to 2.5 million."[3] Furthermore, of the Mexicans illegally in the United States at any given time, a large proportion are here for a matter of months and then return voluntarily.

Sometimes the claim that total immigration is at record levels is inferred from assertions that the *rate* of illegal immigration is very high. For example, FAIR says that "illegal immigration is estimated to add 800,000 to one million more [immigrants] every year."[4] It is quite obvious that so large a yearly *flow* of immigrants—800,000 to one million—is quite inconsistent with the Census Bureau's estimate of the existing total stock of 3.5–5.0 million illegals. And Jeffrey Passel—part of the original blue ribbon team, and the Census Bureau official responsible for estimating illegal flows—uses the numbers 200,000 or 250,000 net illegal immigrants per year.[5] Adding 200,000 or even 250,000 illegals to the known number of legal immigrants indicates that even with adjustments, immigration is nowhere near record levels even in absolute numbers, let alone proportional to the population.

Even more astonishing, the 1985 National Academy of Sciences study, *Immigration Statistics,* concludes as follows about illegals:

> As a result of of this review of empirical estimates of the size of the illegal population of the United States, what can we conclude? First, the procedures that have been used, though often imaginative and sometimes elaborate, all invoke numerous assumptions that often cannot be adequately justified and to which the estimates obtained are sensitive. Second, . . . though no range can be soundly defended, a population of 1.5 to 3.5 million illegal aliens in 1980 appears reasonably consistent with most of the studies. Third, there is no empirical basis at present for the

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widespread belief that the illegal alien population has increased sharply in the late 1970s and early 1980s; the only data available on recent trends, INS records of locations of deportable aliens, in fact suggest that the population has increased little if at all since 1977. . . . [6]

## Immigrants Add Jobs to the Economy

The most politically powerful argument against admitting immigrants has been that they take jobs held by natives and thereby increase native unemployment. The logic is simple: If the number of jobs is fixed, and immigrants occupy some jobs, then there are fewer jobs available for natives.

Theory says that there must be some short-run unemployment in some sectors as a result of immigration. But theory does not say whether the effect will be huge or trivial. And no empirical study has found such unemployment in noticeable amounts. Even in the few sectors where immigrants concentrate, such as the restaurant and hotel industries, there tends not to be a deleterious effect on native employment because natives do not want these jobs. Evidence comes from experiments conducted by the Immigration and Naturalization Service together with San Diego County. In one case, 2,154 illegal aliens were removed from jobs, and the California State Human Resources Agency tried without success to fill the jobs with U.S. citizens. The County of San Diego Human Resources Agency reported:

> Some of the reasons for the failure were: (1) most employers paid less than the minimum wage rate, (2) the job categories were not appealing to the local resident (a matter of prestige), and (3) applicants were discouraged by not only the low wages but also the difficulty of some jobs, and the long hours demanded by the employers.[7]

Research also does not show across-the-board unemployment caused by immigrants, either in the U.S. as a whole or in particular areas of relatively high immigration. Heretofore such studies have been rather casual. Therefore, Stephen Moore and the author recently mounted a systematic attempt to detect whether such immigrant-caused unemployment exists in significant amount. The effect is either insignificantly small or non-existent. It seems fair to conclude, therefore, that while in theory immigration ought to produce some unemployment in the short run, the amount is in fact negligible. And in the long run, when there is not even a theoretical reason to believe that immigration causes unemployment, there is no evidence at all to think that it does.

One reason that unemployment is not caused is that potential immigrants have considerable awareness of labor-market conditions in the U.S., and tend not to come if there is little demand for their skills. Also, immigrants tend to be varied in their skills and therefore do not have a disproportionate impact on a few industries.

At the same time, immigrants increase demand for labor across the range of occupations, because immigrants consume goods as well as produce them. This point is crucial, but too little understood. Immigrants not only take jobs, they make jobs. Immigrants create new jobs indirectly with their spending, and they also create new jobs directly with new businesses, which they are more likely than natives to start. A Canadian government survey found that almost 5 per cent of

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The American Melting Pot. JIM KALETT/PHOTO RESEARCHERS

2,037 immigrants surveyed had started their own businesses within the first three years in Canada. Not only did they employ themselves, they employed others, "creating" a total of 606 jobs. Expressed as a proportion of the 2,037 total immigrants, roughly 30 per cent as many jobs were created from scratch as total jobs were held by immigrants. Furthermore, these numbers surely rose after the three-year study period.

U.S. experience should be quite similar. Admittedly, the businesses immigrants start are small at first. But remember that small businesses in general are the most important source of new jobs, according to a recent MIT study.

The impact of immigration is likely to be greater on wages than on unemployment rates, because potential immigrants with skills that are in low demand choose not to migrate, and those with salable skills gravitate to industries where there are jobs. This will have some downward pressure on wages. For example, immigrant physicians are more likely to reduce a native physician's yearly income than to throw him or her out of work.

Barton Smith and Robert Newman found that adjusted wages are just 8 per cent lower in the Texas border cities where the proportion of Mexicans is relatively high, compared to Texas cities away from the border where the proportion of Mexicans is much lower, a considerably smaller difference than they had expected to find.[8] Much of the apparent difference is accounted for by a lower cost of living in the border cities.

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It is frequently alleged that immigrants no sooner arrive in the U.S. than they become public charges, draining welfare money from the U.S. taxpayers and paying no taxes. Solid evidence disproves this charge.[9]

In 1976 the Census Bureau interviewed 156,000 households (including about 15,000 immigrant families) to learn about 1975 family income and welfare services patterns. From this sample I constructed a picture of lifetime economic behavior by assuming that the information on the sample immigrants who had been here, say, two years, or ten years (as of 1975) described the representative immigrant family after two years, or after ten years.

For all transfers and services, the average immigrant family was found to receive $1,404 in welfare services in years 1 to 5, $1,941 in years 6 to 10, $2,247 in years 11 to 15, and $2,279 in years 16 to 25. Native families overall averaged $2,279.

One important reason for this is that immigrants typically arrive when they are young and strong, and they do not bring elderly persons with them who might be a burden on the system. When these immigrants retire, their children support them with their taxes, as in the case of natives.

If immigrants paid relatively little in taxes, they might still burden natives, even with fewer welfare services for immigrants than for natives. While there is no direct information on taxes paid, data on family earnings allow a reliable estimate.

Within three to five years after entry, immigrant family earnings reach and pass those of the average native family. The average native family paid an estimated $3,008 in taxes in 1975. In comparison, immigrant families here 10 years paid $3,359, those here 11 to 15 years paid $3,564, and those here 16 to 25 years paid $3,592. Such substantial differences benefit natives.

Assuming that 20 per cent of taxes finance activities that are little affected by population size (for example, maintaining the armed forces and the Statue of Liberty), the data on services used and taxes paid, taken together, show substantial differences that benefit natives: an average of $1,354 yearly for years 1 to 5, and $1,329, $1,535, and $1,353 for years 6 to 10, 11 to 15, and 16 to 25 respectively. These are the amounts by which each additional immigrant family enriches U.S. public coffers. Evaluating the future stream of differences as one would a dam or harbor, the present value of an immigrant family discounted at 3 per cent (inflation adjusted) was $20,600 in 1975 dollars, almost two years' average earnings for a native family: at 6 per cent the present value is $15,800, and $12,400 at 9 per cent. We can conclude, then, that immigrants, far from causing unemployment and costing society more than they contribute, are a direct, dollars-and-cents economic asset to the community.

But these figures are for legal immigrants. What about illegals? Many studies have shown that, contrary to common belief, illegal immigrants from Mexico and elsewhere receive little in welfare precisely because of their illegal status. A recent study by Weintraub and Cardenas of illegal aliens in Texas provides reliable evidence that the taxes paid by the immigrants greatly exceed the cost of services that they use. "Despite our biasing the costs upward and the revenues downward, tax revenues from undocumented aliens clearly exceed costs to

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***"We should be glad that our society is sufficiently attractive to have what is called an immigration problem. The Soviet Union and other totalitarian countries have no difficulty of this sort."***

provide public services to them."[10] They estimate the combined state and local costs and revenues attributable to the illegal immigrant as follows: *Cost*—high estimate: $132 million; low estimate: $63 million. *Revenue*—high estimate: $286 million; low estimate: $162 million.

But even these figures greatly understate the overall positive effect of these illegal immigrants upon natives, because they omit any consideration of the Social Security taxes paid to the federal government and they do not include 32 per cent of their federal income taxes which does not return to the state. (The authors assume that 68 per cent of federal income tax eventually comes back to the state.) Also, these omitted quantities are large relative to the quantities included in their calculation; including them makes the low and high estimates of revenues—$359 million and $580 million respectively—more than twice the state revenues alone. And the federal costs omitted from the Weintraub-Cardenas state calculations cannot be large, since food stamps is the only major federal welfare program used by illegal immigrants, they found. Thus, the overall excess of government revenues over government costs caused by the illegal aliens is very great, in dollars as well as in percentage terms.

## Facts vs. Myths

Going beyond the three issues we have just discussed, immigrants tend to bring an unusually high degree of skill, education, self-reliance, and innovative flair. These are less tangible benefits, but not less important, because they raise productivity and stimulate economic vitality. The widely held belief that immigrants arrive with little or no education, few marketable skills, and in a generally tired and depressed condition is one of the most powerful, least accurate, and most persevering myths about immigration. It was never so.

The central fact about immigrants now, as throughout U.S. history and in almost all places at almost all times, is that immigrants are just entering into the prime of work life. This is the very best time to make a maximum contribution in all ways to the country receiving them. In contrast, the U.S. resident population is rapidly aging. But the immigrants are concentrated in their twenties and thirties, when they are flexible about job and geographical location, and therefore contribute importantly to the constant adjustment of the economy to changing conditions. They are of the age of greatest physical and mental vigor.

Even more surprising is that immigrants on average have as much education as do natives. Though contemporary immigrants include slightly larger proportions of persons of very low skill and low education than does the native labor force, they also contain a *much* larger

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proportion of those of high skill and high education—physicians, engineers, scientific researchers, and the like—than does the native population. And recent research shows that even before the turn of the century, immigrants compared favorably with the native populations with respect to education and skill.[11] This makes sense. A person with little education and skill is not necessarily stupid, and understands that life without salable human capital is particularly tough in a new and strange environment, and therefore that it is wiser to stay home. On the other hand, it is sensible for a person with a good amount of salable human capital to take the chance to improve his or her lot by moving to a new and richer country.

## The Productivity Factor

Though hard to nail down, the long-run benefits of the productivity of these additional workers and consumers are likely to dwarf all other effects. Some of the productivity increase comes from immigrants working in industries and laboratories that are at the forefront of world technique. We benefit along with others from the contribution to world productivity in, say, genetic engineering that immigrants would not be able to make in their home countries. More immigrants mean more working persons to think up productivity-enhancing ideas.

Empirically, all the studies that relate the rate of population growth to the rate of economic growth show no negative effect of the former upon the latter, whether over a long span of history for the few countries on which data are available, or for the many countries for which data are available starting after World War II. And studies of the relationship of population density to economic growth suggest that higher density leads to faster economic growth, contrary as this may be to casual thinking and common sense.

Other increases in productivity—about which we have more solid evidence—come from increased production in particular industries through learning-by-doing and other gains from larger industry scale. Also, increasing the number of customers and workers increases investment, which brings more technology into use. And immigrants contribute to the vitality of our institutions because they tend to be more intellectually vigorous as well as harder-working than natives. How much of this vigor is due to being "hungry" rather than settled and affluent, how much due to their being self-selected for vigor among the populations they come from, and how much due to the stimulating effects of living in the tension of two cultures are open questions, but not crucial in this context.

One of the nice things heard about immigration is that it increases cultural variety as well. Chinese and French restaurants are common examples. But the benefits of variety go beyond consumer and esthetic pleasures. Immigrants stimulate natives to produce more and be more innovative as the natives attempt to keep up with the new competition. And we should not forget that just as the movement of people in earlier times was crucial in transmitting ideas, it is important today.

Even though, as I said in the beginning, the issue of immigration *seems* to pit humanitarian values against native self-interest, we can now see that this is not so. On balance, immigrants are not a drag on the economy. As workers, consumers, entrepreneurs, and taxpayers, they invigorate it and contribute healthy economic benefits. Admitting

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immigrants improves everyone's standard of living, theirs and ours.

We sometimes seem frightened at the number of persons who want to come to the United States; we act as if we are under siege. If we Americans just plain don't want any more foreigners in our midst, let's say so, but let's be aware that we are hurting ourselves economically. And let's not justify our xenophobia with unsound economic arguments.

I suggest that we should be glad that our society is sufficiently attractive to have what is called an immigration problem. The Soviet Union and other totalitarian countries have no difficulty of this sort. What a sad commentary on those societies that people want so much to leave that they are willing to risk their lives. This should remind us how wonderful it is that people want to come here.

We do not need to balance the gains to them against the sacrifice to ourselves. We do not even need to raise the ethical issue of drawing a boundary around our nation and saying that those lucky enough to be born within are entitled to opportunities that we deny to others. Immigration is good for ourselves at the same time that it is good for the immigrants. □

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## In Future Issues . . .

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- "The War on Poverty Revisited" by Edmund A. Opitz
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- "Productivity vs. Exploitation" by Henry Hazlitt
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# How to Gain Liberty

**How can we best achieve a free society? Self-improvement is the only answer.**

by Leonard E. Read

Leonard E. Read was the founder of The Foundation for Economic Education in 1946, and its president until his death in 1983. This article was first published in 1955.

"I want less talk and more action."

Thus speak Americans when they suddenly awaken to the fact that their liberties are endangered. Talk, they say, is useless; only action counts. But perhaps talk and action aren't necessarily opposites. What if studying, talking, writing, and explaining should turn out to be the only worthwhile action there is? What then?

There are only two types of action: physical and intellectual. Do those who would save liberty advocate physical action? If so, how? To use physical force against others, except defensively, is to destroy the liberty of others which, by definition, is not liberty. To adopt this tactic—to employ physical force against others in any form or degree, except in self-defense—would be merely to substitute a new form of compulsion for the existing forms of compulsion, trading violence for violence—revolution! At best, it is the court of last resort and is not, really, what most persons have in mind when they insist they want action. Most of them mean only that they want "something done," and quickly! They want to fight peacefully. The thought of using fists or guns never as much as enters their heads; they reject physical action, in their calculations, by not even contemplating it. Thus, according to their own thesis, nothing logically remains but intellectual action.

How, then, does one fight for liberty intellectually? The best thing to do even in an intellectual fight for liberty, many think, is to organize—which is a form of action. Usually they think in terms of organizing someone else to do something instead of organizing their own time and energies. This damaging tactic is employed as though organizing had the power, somehow, to absolve individuals from doing any more than joining some organization. This mania for organizing is usually little more than an effort, doubtless unwitting, to transfer responsibility from oneself to some other person or persons whose competence is often unknown.

Responsibility and authority always go hand in hand. Thus, if this process of organizing succeeds, authority over one's own actions is lost precisely in the degree that responsibility is shifted to someone else. The citizen who "wants action," and resorts to this type of tactic, ends up further from his goal than ever. In fact, organizing, more often than not, is merely an attempt to "pass the buck." Yet, oddly enough, the mere act seems to have the strange power of conferring a sense of accomplishment on the ones who organize.

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Organization, though much used, seems to be little understood. In the field of extending individual liberty, organization has strictly limited, technical possibilities. Unless these limitations are scrupulously observed, organization will inflict on liberty more harm than good; thwart, not abet, the spread of understanding. Sobering is the thought that if there were no organization, there could be no socialism!

Organizations can, however, serve a highly useful purpose in developing and spreading an understanding of liberty if organization is confined to its proper sphere. For the purpose of advancing liberty, which depends solely on the advancement of individual understanding, the only usefulness of organization would seem to be to accommodate and to make easier the joint contribution to, participation in, and ownership of the physical assets that will aid in the process. These physical assets may include typewriters, buildings, specialized libraries, printing presses, telephones, and the many other tools helpful to individuals who are attempting to extend their understanding of liberty. These physical accommodations can enable searchers for truth to exchange and disseminate ideas and knowledge more effectively. They can be used to secure the advantages which derive from specialization or division of labor. Organization, limited to this form of voluntary cooperation, is a useful and efficient means for achieving these desirable ends.

Organization, however, like government, if extended beyond its proper sphere, becomes positively harmful to the original purpose. This fact constitutes the need for much careful thought on organizational limitation. Just as government becomes dangerous when its coercive, restrictive, and destructive powers are extended into the creative areas, so do voluntary organizations pervert and destroy the benefits of intellect when the capacity to merge is carried to the point of subjecting individual judgments to the will of the majority or group. Truth, as each person sees it, is the best that the mind of man has to offer. Its distortion, inevitable when achieving a collective chorus, does injury to understanding.

## A Simple Answer

If organization is not the best way to secure liberty, then what is? My answer—self-improvement—is the essence of simplicity. The reasons which lie behind the answer, however, are not so simple.

The inclination to escape personal responsibility—plus the belief that somehow intellectual miracles can be wrought by us on someone else—is too pervasive for easy rejection. Unless we fully understand that these inclinations and beliefs are wholly without merit, we will continue to indulge in them. I wish to make the argument that self-improvement is the only practical course to liberty.

Is there one book or one article written by anyone at any time that can be designated as the final word on liberty? Perhaps the best that can be said is that the finest minds of all time have been in pursuit of its understanding and that now and then a tiny ray of new light has been thrown on what theretofore was darkness and lack of understanding. These few most advanced searchers have been among the first to say, "The more exploration I do, the more I find there is to learn."

The reason for this difficulty in understanding liberty is that liberty, like truth, is an object of infinite pursuit, a quest without end, ever!

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The understanding of liberty requires intellectual ventures into the areas of the unknown or, more likely, into the areas that have become unknown or that majorities have declared taboo. Have you not noticed the vigor we employ when a present liberty is threatened and then, when it is lost, how soon we refer to it as a "social gain"? How can one who has been thus trapped, or who himself has lapsed into thinking of a new restraint as a "social gain," possibly identify the liberties he has lost?

Every individual ought to realize that he has not mastered the subject of liberty until he thoroughly understands, and can competently explain, this idea: With government properly limited to its legitimate function of defense, our problems of interdependence can be resolved through voluntary effort, and only through voluntary effort. If that is a correct appraisal, then most persons are inexpert in their understanding of this subject.

In brief, not a single person among us is justified in regarding himself other than as a student of liberty. No know-it-all exists or ever will.

In searching for a student of liberty, the search must be within one's self. In the world of persons, it is only within each of us that the fertile, explorable areas exist. The best explorer of oneself is oneself. It is not possible to impart to others that which we do not possess. And even after we have made some progress in understanding, the most we can do for others is to make known to them a willingness to share what we have discovered by our own thinking, or what we find edifying from recorded thinking. Whether or not what we offer is, in fact, shared, is beyond our power; and we should realize this.

It is conceded that the student attitude, this search within ourselves, may at times appear unrewarding. But if the understanding of liberty is to be advanced, the attempt must be persisted in, regardless of its seeming extravagance in time and effort.

## Improving Oneself

Action? The casual thinker might imagine that the best course is to try to tell others what to do and how to think. But reason supplies a contrary answer. It suggests that pursuit of one's own personal understanding is the only practical action for one to take. If a person advances his own understanding of the true and the false, the understanding thus acquired will be sought by others. Reason recommends that a person get the horse before the cart; that first one must learn; that influencing others will take care of itself. Reason says that influence in the creative areas can have no effectiveness prior to learning; that learning has no end.

Some persons will assert that the conclusions herein set forth are self-evident, but will argue that this suggested student approach—this process of self-improvement—is too slow to meet the challenge of these times.

I am in no position to deny this. But, in my opinion, there is no short cut. The only way to truth—that is, to understanding—is through one's own person. When we gain an appreciation of this simple fact, we will be on our way to as little violence against persons, and thus to as much liberty among persons, as is within our power.

Action? For authoritarians it is physical force. For libertarians it is first understanding and then explanation—the latter being "talk," either verbal or written. □

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# Toward a Market Monetary System

## Getting government out of the money business . . .

by Alberto Benegas Lynch, Jr.

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When monetary matters are discussed, it is important to specify that money originated and developed spontaneously in the market. Money came into use because people accepted the advantages of indirect exchange when compared with direct exchange or barter. One of the main advantages obtained from the use of a money commodity in relation to direct exchange is that it allows economic calculation. Only prices expressed in a common means of exchange makes accounting operations and project evaluations possible.

The main function of the price system consists in guiding the productive structure. This market system requires the enforcement of private property, since price becomes possible as an expression of those interactions of individual valuations through the use and disposal of what is owned. Individuals participating in the market modify the relative price structure according to the changes that take place in their individual valuations. At the same time, these modifications in relative prices guide the always limited productive factors toward those areas considered as more urgent by consumers.

However, when government money is involved, i.e., when government decides the quantity of money, relative prices are influenced by political decisions. Relative prices will become distorted or misrepresented. Within this context, inflation can be seen as an increase in the amount of currency due to external or political causes, and deflation as the monetary contraction due to external or political causes. The economy will not be responding to events that originate and develop within the market but instead to political decisions—a phenomenon that comes from outside the market.

The problem lies in the fact that *one will never know what the market wants if it is not allowed to operate.*

Essentially three courses of action can be established in the monetary field: to have a monetary authority, to establish a monetary rule, or to adopt a market money system. Having a monetary authority implies that it will be a political decision whether the money stock expands, contracts or is left unchanged. Regardless of the decision taken, relative prices will be altered as a consequence of that decision. The establishment of a monetary rule will also affect relative prices as a result of its application. It is true that this last possibility will avoid erratic

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behavior in the quantity of money but the essence of the monetary problem still remains.

## Eliminate Government's Monopoly

It is only possible to remove the problem of inflation and deflation *when the political decision of not adopting more political decisions in the monetary field is taken.* In other words, the market money proposal implies that money must be considered just like the rest of the goods and services traded in the market.

This approach goes to the root of the problem, and thus eliminates the causes of monetary corruption. This is the idea, proposed by Hayek, of *eliminating legal tender* (that is, government's monopoly on money). Other institutions can then mint, print, and convert the currency or currencies accepted by the market. Another stipulation should be the elimination of all laws regarding minimum banking reserves. We should also remove all restrictions on the ways in which each financial institution handles its business. Not only must the government monopoly on money be eliminated, but government must completely withdraw from monetary management. To this end, the central bank and the printing institution must be sold, together with the government money "brand."

Hayek's concept of market money obviously includes its denationalization, separating it completely from the idea of sovereignty. This means adopting (or rejecting) as money the good or goods the market judges adequate. This is similar to the way in which potatoes are sold in the international market, with no reference made to "national potatoes." In this way, market money is separated from the idea of nationality.

Of course, the idea of a free society does not just mean a monetary reform. Its main goal is to limit government activities to specific functions. Government spending must be reduced and, as a consequence of that, taxes will also be reduced.

If public expenditure is not reduced, what is now an implicit tax in the form of inflation will turn into taxes proper. The state's share in the national income will be unchanged, but prices will now reflect the real situation. A much more economic use of the available resources will then result.

Of course, it is possible to conceive the adoption of government money related to the market through a commodity whose volume depends on market conditions, as in the case of the classical gold standard prior to World War I. If, furthermore, government money is not of legal tender, possibilities appear for alternative currencies selected by the market. However, in order to make money compatible with the basic principles of a free society, it is necessary not only to eliminate legal tender (i.e., the government's monopoly on money), but to remove the government from the money business.

In relation to currency matters, we will have a truly free society only when we understand that our personal ideas about what money *should be* can be offered to the market and compete with other ideas. But we cannot impose them on society any more than we impose our personal feelings with respect to other goods and services in a free society. The government's function is to resort to defensive force to protect individual rights and not to get involved in banking, financial, monetary, industrial or commercial activities in general. □

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# What Is a Just International Economic Order?

## Free trade brings the world together and promotes peace and prosperity.

by William H. Peterson

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This article, orginally delivered as a lecture at St. Joseph's University last February, is used with the permission of the Intercollegiate Studies Institute.

We are under attack, both at home and abroad. The target is the rather open—and I think, rather moral—international trading and investment system that has prevailed, evolved, and expanded since the end of the Second World War.

Here in America the attack is now put in the context of the United States having suffered a record foreign trade deficit of $123.3 billion in 1984 with an even greater deficit in prospect for 1985, as a flood of U.S. imports swamps modest increases in U.S. exports. The Commerce Department reported that the 1984 deficit total came close to doubling the old record of $69.4 billion set in 1983 and was almost three times higher than the previous record 1982 deficit figure of $42.7 billion.

These skyrocketing deficits are leading to growing political pressure for further stifling our nation's imports and thereby, however inadvertently, setting back economic development throughout the world, especially the Third World. In Washington the political pressure springs from industries suffering the most from foreign competition, such as steel, autos, and textiles. Friends of these industries in Congress are legion. Congressmen and lobbyists claim that millions of jobs have been lost, that more millions of jobs are at stake, and that only further protection will preclude disaster. Imports of everything from cameras to footwear, from copper to copiers, from garments to autos, from Italian wine to Danish silver, are under veiled or open attack. Now a prominent businessman promotes a 20 per cent manufactured-goods surcharge on all imports (phased out over three years) as a means of "attacking" the big U.S. trade deficit.

The very word attack has military as well as moral overtones, and I don't believe it is unwarranted for me to say that over the longer run world peace, apart from world prosperity, hangs in the balance. A growing system of international cooperation, of freedom and free enterprise—for these are the roots of a just international economic order—is at bay.

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Permit me, then, to recall in this regard the slogan of IBM, one of the world's great trading corporations, "World Peace Through World Trade." The remarkable 19th-century French economist Frederic Bastiat made this similar observation, "When goods can't cross frontiers, armies will."

In other words, I believe that the present international economic order is indeed a just one or at least an increasingly just one, despite the incursions of the Soviet Union and other aggressive states such as Libya, Iran, and Vietnam. But the growing forces of protectionism at home and abroad are inadvertently threatening that order and are asking for retaliation. They are playing with fire.

## Why Trade?

Do I exaggerate? Historical evidence abounds on the disruptive power of protectionism, on the correlation between free trade and world peace. In the 17th and 18th centuries, protectionism was, of course, a factor leading to the American Revolution. The American Revolution was triggered by such Parliamentary acts as the Sugar Act of 1764 and the Stamp Act of 1765. The Sugar Act imposed a duty of three pence a gallon on "foreign"—i.e., non-British—molasses, a duty which the New England rum manufacturers insisted would ruin them. The Stamp Act hit lawyers, publishers, and traders, requiring all legal documents to be affixed with royal stamps.

But as Adam Smith noted in his *Wealth of Nations,* the fundamental economic issue of the American colonists was larger than duties and stamps. It was the central problem of mercantilism, of protectionist Britain putting down the American colonies, regarding them as but a source of raw materials and a market for its wares, with Britain as the master manufacturer, banker, merchant, and shipper.

Protectionism was also a factor in causing the Civil War, with the protectionist forces of the industrial North goading the agricultural South. When Congress passed the so-called Tariff of Abominations of 1828 and succeeded it with an even higher tariff in 1832, for example, John Calhoun led a state convention of South Carolina to issue an Ordinance of Nullification, the idea that the U.S. Constitution, correctly interpreted, empowered a state to nullify Federal laws inimical to its interests. The tariff issue became embodied in the question of states' rights leading right up to the question of secession and the Civil War.

Again, the McKinley Tariff of 1890 and the Dingley Tariff of 1897 pushed protectionist walls to the highest levels in the history of America and contributed to the international frictions and retaliations culminating in the First World War. If there was a lesson on the counterproductivity of protectionism to world peace and prosperity, it wasn't learned after that war. For in 1930 came the giant Smoot-Hawley Tariff, approved by President Herbert Hoover. Not only did Smoot-Hawley worsen the tensions that precipitated World War II but it held back in America the recovery that characterized most of the industrial world by the early 1930s.

After World War II, America, to its great credit, extended a program of reciprocal trade agreements, and helped to organize the General Agreement on Tariffs and Trade (GATT) aimed at reciprocally reducing trade barriers around the globe. Postwar historical barriers

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***It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages.***

—ADAM SMITH
THE WEALTH OF NATIONS

to world trade indeed have been breaking down the world over, and it is worth noting that since World War II no big international war has occurred. Morever, a good example of the freer trade movement in action happened in the early 1960s when the Kennedy round of tariff reductions produced a pronounced lessening of protectionism and a speed-up of international development, especially in the Third World.

Against this backdrop, however, is a growing return of the philosophy of protectionism. The job of economic education of people everywhere remains unfinished. We must set forth the case for a system of individual private property rights (without which no other human rights are possible), of open international trade and investment—the things which are the basis for a just international economic order. We should get down to the very basis of society: social cooperation, mutual help, mutual production, and mutual trade. The answer lies in the idea of freedom, free enterprise, and limited—repeat, limited—government.

## The Law of Scarcity

Is not trade a kind of glue that holds society together? As a teaser, let me remind you of the dozens of English family names that reveal an occupation of generations past. Consider family names like Archer, Smith, Clark, Cook, Banker, Butcher, Fisher, Farmer, Carpenter, Sawyer, Wheeler, Baker, Cooper, Binder, Mason, Hammer, Saddler, Hunter, Teacher, Brewer, and so on. The phenomenon also applies to foreign tongues. Eisenhower, for example, translates to "iron-maker."

Man trades because of the primordial law of scarcity, the very underpinning of economics, the idea that man must work and produce the means of his survival, or he will perish. Or, as the Lord Jehovah thundered down on disobedient Adam and Eve as they passed through the gates of Paradise: "In the sweat of thy face shalt thou eat bread."

Work overcomes scarcity, but how effectively? To what extent? Because of the principle of what Adam Smith called division of labor (the idea of particularized work skills, of specialization by occupations to bring about greater productivity), work became more meaningful and far more productive. Men and women over time have sought out different walks of life, different trades, different occupations, different professions, different callings.

Yet specialization or division of labor, of lands as well as people, presupposes the market mandate of barter, of trade, of swapping one's surplus goods for someone else's surplus goods, as did Robinson Cru-

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soe and Friday to such salubrious effect. So let me invoke another great principle of basic economic law—the principle of comparative advantage. This principle maintains that total economic well-being is furthered as each person, region, and nation, specializes in the creation of those goods and services which can be produced, in relative terms, most efficiently. In this manner the great bugaboo of scarcity—so universal, so ubiquitous—can be better overcome, with that delightful spinoff, as I noted earlier, of greater international peace. In other words, we can hardly expect a supplier in one country to go around and shoot his customers in other countries.

To be sure, the vehicles for world trade are overwhelmingly multinational corporations. And these MNCs are, of course, greedy, imperialistic, profit-hungry, uncaring, exploitative, and suffering from every other evil invective known to man.

I've invoked the concept of profit, the drive behind the multinationals, the drive which I equate with self-interest. How can we defend what appears to me so basic and inescapable a part of human nature? This is not to denigrate altruism and the qualities of faith, hope, and charity. But it is to assert the essentially individualistic self-motivated nature of human action, of man ever scouting and weighing options on how to survive, on how to overcome scarcity. And hence the worldwide social need of trade, including international trade, and the universal social need to recognize the innate self-interest side of human nature. In this regard, let me resort to that eminent professor of moral philosophy—for that was his title—Adam Smith, who declared in his *Wealth of Nations:* "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages."

## The Ethics of Trade

Self-interest—the profit motive—mightily serves the public interest, the common good. But, in truth, it is not an unalloyed good. The mugger in Central Park, for example, is pursuing his self-interest. Hence, trade must itself be subject to ethical considerations, to the absence of fraud, force, and moral turpitude.

Third World nations must realize, I think, that trade is a two-way street. Profit is mutual and without transfer of capital and technology their peoples will languish in poverty and squalor. Yes, MNCs in pursuit of profits will seek out areas of low wages and natural resources as well as areas of high wages and hence high demand. But is it a crime to seek out low wages (and thereby drive them higher)?

Let me remind you that a century and a half ago the U.S. was itself a developing nation, and MNCs, especially those from England and France, invested heavily in our country, most notably in our railroads which bound our fledgling nation together, North and South, East and West. So, too, have MNCs greatly helped write the success stories of "the Gang of Four" in the Pacific Basin—South Korea, Hong Kong, Taiwan, and Singapore. I also want to take note of how French, British, German, Japanese, and American multinational corporations figured in the successful development of the West African nation in which in the early 1960s I served as an economic consultant—the Republic of the Ivory Coast.

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***The motive of all these regulations is to extend our own manufactures, not by their own improvements, but by the depression of those of all our neighbors, and by putting an end, as much as possible, to the troublesome competition of such odious and disagreeable rivals.***

—ADAM SMITH
THE WEALTH OF NATIONS

Now, is such an international economic order, as I have described, just? Justice is not the easiest word to define. Aristotle said it is a matter of equal rewards for equals and unequal rewards for unequals. The important black American economist, Walter Williams of George Mason University, defines social justice as a matter of "I get to keep what I earn and you get to keep what you earn." I connect justice with ethical choices—rewards for good choices, retribution for bad ones. At any rate, I believe the word "exploitation," in or out of the Third World, is largely in the eye of the beholder whenever choice abounds in a free society.

The key to understanding the relationship between a buyer and seller, employee and employer, saver and investor, producer and consumer is freedom—i.e., voluntarism, the absence of coercion, the ability to shop around for the best offers and the best bids. Such freedom for the individual tends to lead to strong and vigorous economic development as well as to individual well-being.

As a model of such economic development let me offer the case of Hong Kong. Hong Kong is not without problems, but it has prospered without much, if any, government planning and with minimum taxation and regulation. This British Crown Colony, which reverts to Chinese Communist control in 1997, stands as a monument to the remarkable creativity of free trade.

Hong Kong is a city with a population of 5.5 million, mostly refugees from Mainland China, occupying an area of 400 square miles at the tip of South China. Among other things, it is:

- the world's largest exporter of garments, toys and games;
- the world's major supplier of light consumer items including clocks and watches, plastic and artificial flowers, batteries, watchbands, candles, electric fans, and so on;
- the second busiest container port in volume in the world after Rotterdam;
- the second largest shipowning center in the world;
- the third largest international banking and financial center in the world.

On top of the above, Hong Kong has:

- a GNP per capita only lower than that of Japan in Asia;
- the second highest per capita consumption of electricity in Asia;

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BETTINA BIEN GREAVES

- on a per capita basis, more bank branches or representative offices than any other territory in the world;
- the highest telephone density in South-East Asia;
- the highest vehicle density in the world next to Monaco.

Having said all this, I am hopeful that you see that the push for protectionism and the assault on multinationals are destined, for the most part inadvertently, to hurt the very people that the purveyors of these ideas say they wish to help—namely, the consumers at home and abroad, including the consumers in the Third World. Protectionism, you see, crushes choice. It denies competition. It depresses living standards. It robs the consumer of one of his most precious possessions—his sovereignty. Where has the consumer fared best, for example, in Ghana where for the most part MNCs have fled, or in its next-door neighbor, the Republic of the Ivory Coast where MNCs proliferate and average per capita income is around three times greater than in Ghana?

Despite all of this, in Washington we witness bills dropped in the Congressional hopper to curb the power of foreign MNCs, especially those of Japan, which are "viciously" flooding the country with Toyotas, Sonys, Canons, and Panasonics, and so on. The United Automobile Workers, for example, has pushed for "domestic content" legislation—legislation designed to make sure that new cars sold in America have up to 90 per cent of their parts manufactured in the U.S. and that up to 90 per cent of the labor in the assembly of those cars be supplied by American workers. Such 90 per cent parts and labor requirements would make auto imports all but an impossibility.

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*It would make the price of new cars greater by many hundreds of* dollars, just as now the so-called "voluntary" auto import quotas imposed on Japanese producers result in the American consumer having to pay hundreds of dollars more for his new car today. Are such attempts with such results moral? I think not.

## The Need for Economic Education

The only solution to the problem and challenge of achieving an even more just international economic order is economic education. I believe we as educators should reassert the moral basis of freedom and free enterprise. The moral basis of government was well stated, in effect, by Lord Acton, the great English Catholic lay philosopher, who said that "power tends to corrupt and absolute power corrupts absolutely." Acton saw the case for *limited* government, as did John Locke before him. Locke declared that the only reason for government was for the protection of life, liberty, and property—a phrase reflected not by coincidence, in the Fifth and Fourteenth Amendments to the Constitution. To be sure, Locke used the word protection but here what he meant was not freedom from competition. Rather, he meant the inviolability of property from arbitrary seizure by the state. He meant the right of property owners to sell or hold or invest their property at will. He meant, in a phrase, freedom and free enterprise.

In other words, economic educators have the considerable job of making clear:

- that tariffs don't protect jobs (actually they destroy jobs),
- that the rich hardly become richer by exploiting the poor (actually they get rich in a market economy by enriching the poor, and by raising living standards through capital formation),
- that if we don't buy Japanese cars and copiers the Japanese won't be able to buy our airplanes and soybeans,
- that if we don't buy Mexican cotton and Brazilian sugar the Mexicans and Brazilians won't be able to repay their huge debts to American banks.

In a free society choice is critical. The sovereign consumer has every producer, big and little, by the jugular, as Ludwig von Mises pointed out. In the market the consumer is King or Queen Customer.

The market system is a moral system, a system of voluntary social cooperation. What is more, it is the Golden Rule in action. As you know, the Golden Rule says, "Do unto others as you would have others do unto you." What does the market say? It says, in the words of Adam Smith in his *Wealth of Nations:* "Give me that which I want and you shall have this which you want." The market, in other words, says, let's cooperate, let's work for each other, let me help you so you can help me.

Let us view a just international economic order as a worldwide system of exchangeable private property rights and limited government—government steeped in the philosophy of free trade and open investment. Let us, then, educate on the case for unhampered world commerce as a key way to help each other at home and abroad. International free trade is a way to bind the world together and elevate it to a new vista of world peace and prosperity, of world respect and understanding. □

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# Product Information on the Market

**Consumers determine the amount of information available to them.**

by Joseph S. Fulda

Joseph Fulda is assistant professor of computer science at Hofstra University.

One often overlooked dimension of competition is *information.* Information, it must be recalled, is an economic good: it is both scarce and valued. (See Gary North, "Exploitation and Knowledge," *The Freeman,* January 1982.) Product information will thus sometimes be available and sometimes not, depending on whether it is more profitable to procure and disseminate it or more profitable not to do so. This in turn depends on whether or not consumers value the information more than the resulting increment in price.

Thus food processors providing the extensive testing necessary to label cholesterol content to the nearest milligram only under threat of harassment by government agents are not denying consumers information they "ought" to have. Such information, like any economic good, is provided in quantities determined by the intersection of its demand curve with its supply curve. If rather little information is provided, this indicates not malevolent exploitation of ignorance, but rather that consumers are unwilling to pay the price that would generate a greater stock. That is a decision that should be left to them. Under the market system it is.

When the demand for accurate information about a product is sufficiently high as to support the price needed to call forth the supply, competition will assure its presence. But, the critics contend, doesn't such simple-minded supply-demand analysis suppose that the information in question is *neutral?* What if provision of the information would cause the demand curve to fall off sharply? What recourse do buyers have when the product fails to perform adequately? And what prevents the unscrupulous seller from masking defects or other information which reflects undesirably on his product? If the market is based on the profit motive and incentives, what about cases where the incentives are apparently in all the wrong places: to be insensitive rather than sensitive, to be unscrupulous rather than honorable, and so on? There is genuine moral concern underlying these questions, concern that should be addressed.

As usual, critics of the market believe that if government does not regulate, there will be chaos. In reality, however, liberty is self-regulating and the free market turns chaos into order. Specifically, the

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consumer has several sources of protection from the competitor who shields nonneutral information: the law, other competitors, other consumers, and himself.

By recourse to the law we do not refer to regulatory law, "consumer law," or any other of the new areas of statutory endeavor—all of which, in greater or lesser degree, presume guilt in the producer—but rather to the common law, as it has developed over the centuries. If outright fraud is perpetrated or the warranty of merchantability is breached, the purchase lacks informed consent and redress by the courts is in order. Likewise, the time has long passed when poison can be sold as medicine—violence done to person or property, willfully or through negligence, is not specially protected by its perpetration through economic transactions. But recourse to the law, as the critics remind us, is a cumbersome and expensive process and one which is necessarily undertaken only after the improper action is taken and the damage is suffered. If the law is not to presume guilt, it can sanction retaliatory measures only. Preventive measures must be left to the marketplace, a topic to which we now turn.

Circumscribing the actions of competitors on the market are other competitors who seek business, consumers who seek the best buy, and groups of these acting in concert to protect their common interests. To begin with, it must be understood that just as there can never be complete product information, there can never be neutral product information. All information about a product affects the choices of the consumer and is thus nonneutral. Information about proper use or care for the product will usually not change a consumer's mind about a product. But if it is absent it presents a risk to consumers buying the product or imposes the cost of obtaining the information elsewhere. Likewise, if the instructions indicate that the product is one that is not easy to use, the decision about its purchase may be negatively affected. Risk, it might be added, is central here. The less complete the information, the greater the risk. The willingness to bear that risk is ultimately up to the consumer and it is he, therefore, who has ultimate responsibility for his purchases.

But everyone prefers to operate under a minimum of risk and a maximum of information. Thus information becomes a dimension of competition. Sure, producers might prefer to offer their wares without the information that is a necessary concomitant; but the existence of other competitors who provide more information and consumers who value such information leaves them no such choice. Other competitors may even supply the decidedly nonneutral information that the wayward producer shields from view. News organizations, responding to the same demand, may also reveal it. Even if not revealed, however, the absence of information, like the presence of discouraging information, is often enough to deter the consumer from making the purchase.

## Guarding Against Risk

There will be instances where information cannot be verified by consumers even when present and where substantial danger would result from poor quality and an accompanying lack of information, as with medication. In such cases, the after the fact penalties exacted by the law—in damages, including possible punitive damages—and the market—in loss of future sales—

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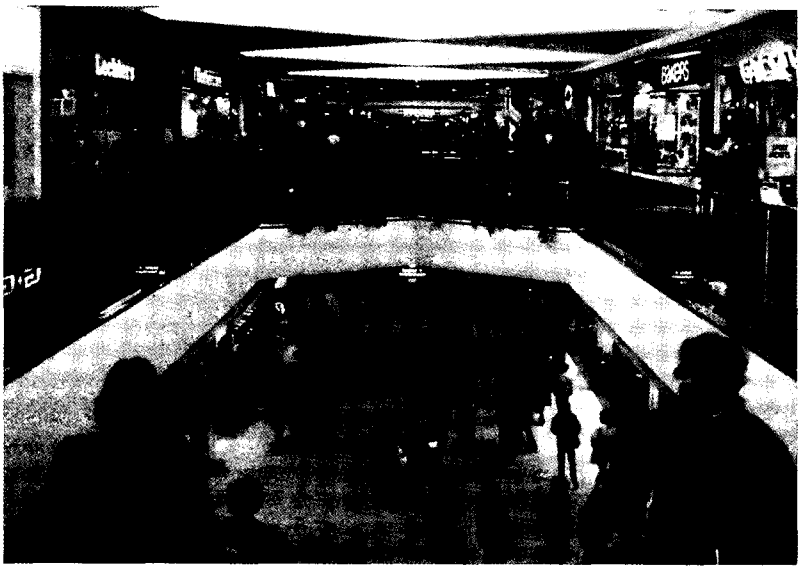

PERRY ALAN WERNER

would be correspondingly high. Too high to risk. There can be little doubt but that such companies would take out insurance. They have every incentive to do so, *especially* if they are not conscientious. But the insurance companies have every incentive to see to it that claims are not made and, if made, not collected. They will thus act to guard their assets. Inspections by private insurance companies with millions of dollars at stake and whose inspectors may well have their jobs on the line will surely be more thorough than disinterested bureaucrats working for indifferent agencies. Likewise, the expensive and cumbersome legal process of proving fraud or negligence when an insured company does market a dangerous product is now gladly undertaken by the insurance company.

Premiums for such insurance will be determined on the basis of the company's record and inspections. A company with substantially higher premiums than its competitors, and that includes companies insured on the basis of statistics without inspections, will soon find its prices noncompetitive and its customers switching loyalties. A company without insurance at all is likely to be boycotted by most consumers. The existence of insured firms and consumers seeking security insures this. Once again, producers and suppliers who are insured have every incentive to advertise the fact, and to attach inspection labels with the name of the certifying company onto their wares. (The insurance company may either insure the client company against liability or extraordinary loss of business due to product failure, or insure consumers directly. The certifying company need not be known as an insurance company—it could be a magazine—but in this respect it will function as one.)

It must be admitted, however, that on the free market consumers who wish to bear the risk of buying from an uninsured, uninspected drug company either to save money or for other reasons are free to do so. The market adequately prevents and retaliates for harm done us by others; it does not prevent us from harming ourselves.

Notice, though, what has happened. Through the complex interplay of a series of market incentives, retaliatory legal and market penalties

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have been transmuted into preventive measures. Such insurance schemes as we have described are not more widespread only because government heavily regulates both the insurance industry and the potential client industries. Because government has effectively monopolized and usurped the insurance business, some of the insurance industry's most natural constituencies have never been fully cultivated.

Another market mechanism for protecting the consumer which has been adopted under pressure of competition is the guarantee. Because prior information about the quality of some goods and services is difficult to obtain (e.g., repair services), guarantees have become a standard substitute. Although this remedy works only after the transaction, it both removes the incentive for and imposes a cost on making a sale on false pretenses. Thus, once again a subsequent remedy is transmuted by market incentives into a preventive measure.

## Competition Promotes Information

If one wishes evidence that competition promotes rather than stifles the dissemination of product information, one need only compare the readily available information about goods and services offered on the market with that available about services offered by the government. It is legend that taxpayers inquiring about government services are shifted endlessly from office to office in a vain quest. Despite reams of published material detailing every last function of government, taxpayers are often unable to obtain answers to even the simplest of questions. Likewise it is interesting to note that just those areas of enterprise deprived of competition, notably utility and other companies with direct or indirect grants of monopoly power, are the least satisfying when it comes to information about their products and prices. Computing the price for even a relatively simple service often entails poring through pages of cross-referenced tables with notes and addenda. Some of this excess is due to the absence of competition decreed by the state. Not surprisingly much of it is the result of company response to state agencies which take it upon themselves to set a "just price," a task which belongs to the market.

Yet another market mechanism that competitors must worry about is the voluntary inspections and standards of trade groups and consumer associations. Yes, companies can deny these entry, but to many consumers that would be *prima facie* evidence of failure to meet those standards. Yes, the standards themselves may be weak or poorly enforced, but if demand for the product or underlying need is even reasonably elastic (as it almost always is), the incentives are in all the right places: weak or poorly enforced standards cause the public to view the entire industry with distrust (this has happened with the mass media, for example) and that is bad for business. Furthermore, consumer groups which undertake such projects as comparative rating of products, product testing, determining best buys, and listing appliances together with their specifications can be a formidable opponent of shoddy production practices. Nevertheless, as we remarked about insurance, neither trade groups nor consumer associations have developed on the market to the extent that manifest concern about these matters—consumer demand—would call forth. These initiatives, too, have been largely usurped by the activities of government regulators.

It must be admitted, however, that at times none of these sources of consumer protection will operate. The presence of residual fraud,

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misrepresentation, or omission of damaging information that obtains under the market system is often defended by the advocates of capitalism as the price of freedom from prior controls, constant supervision, and the like. The simple truth is that *no* system can eliminate abuse. The market system at least minimizes it. Abuse is the price of being human, not the price of being free. The quality and safety of products manufactured under command economies, where every stage of the production process is under supervision and subject to government standards and controls, is a powerful indication of this.

Where the market fails, planning must fail spectacularly, for the mistakes of central planners, unlike those of entrepreneurs, are centrally imposed on the entire economy. Where the market and the law under which it operates may at least take action after an abuse occurs, the system of planning with its unnatural disjunctions between profits and success, losses and failure, and responsibility for actions and liability for their consequences remains indifferent. The market attends to economic signals which duly report mistakes. Planners, on the other hand, having destroyed or distorted economic calculation, attend only to political signals which report whatever meets the party line.

Before concluding, we should take note of the moral issue involved in forcing the release of information. In finding the forced recitation of the Pledge of Allegiance by school children unconstitutional, the Supreme Court has declared the right not to speak at least as protected as the right to speak. (See West Virginia State Board of Education v. Barnette [1943].) Circumscriptions of speech generally involve a mild contraction of choice, whereas coerced speech eliminates all choice. It is thus a mark of how far the artificial dichotomy between economic and personal freedom has permeated our law that, despite the reasoning above, producers and suppliers are daily forced to make all manner of declarations, issue all sorts of lists, and post a wide variety of information.

Notice that what is moral and what is pragmatic are harmoniously aligned. The forced release of information is thus not only inefficient and counterproductive. It is a violation of privacy and the natural right of free expression. There are natural laws governing human action, just as surely as there are laws governing the operation of the physical universe. For human action to be productive and beneficial to mankind, the self-evident moral constraints on such action must be observed with care. □

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# Thirty Years of Freeman Reviewing

by John Chamberlain

I have been reviewing books for *The Freeman* for thirty years. To my memory I missed appearing in one issue, when the mails went wrong from Taiwan. At twelve reviews a year for thirty years, minus one review that went astray, the sum total of books read and commented on would come to 359, quite a shelf of the literature of freedom.

The question is: how do you hit the high spots when so many of the books made worthy contributions to conservative or classical liberal thought? I've combed over the issues of *The Freeman* going far back into the Fifties and find at least a hundred titles that are important. How do you winnow these down to ten or twelve without doing violence to history?

Maybe the way to do it is to begin with the seminal thinkers whose names crop up more than once, either because their books get reprinted or because they have essays written about them. The three names that automatically qualify here are those of Ludwig von Mises, Friedrich Hayek and Henry Hazlitt.

I reviewed Mises' *Human Action* for Eugene Lyons' *American Mercury* before there was a *Freeman*. Accordingly, when it became a question of doing something about a new edition of *Human Action* for a special Mises issue, Paul Poirot suggested that I review my original review. Earlier on, in November of 1956, I had had the opportunity to review Mises' *The Anti-Capitalistic Mentality*. And much, much later there was Margit von Mises' sensitive and beautifully written *My Years With Ludwig von Mises*.

With Hayek, there were plenty of opportunities to get acquainted with an old Whig, from a reissue of *The Road to Serfdom* in 1956 and *The Constitution of Liberty* in 1960 to *The Essence of Hayek* in October of 1985. And there was Hayek's notable editing of *Capitalism and the Historians*, which came out of a memorable meeting of the Mont Pelerin Society.

Henry Hazlitt, at age 91, is still going strong on the subject of inflation. It was his introduction to Andrew Dickson White's *Fiat Money Inflation in France*, written in 1959, that gave many of us a first clear glimpse of the dangers of reliance on a paper currency. Hazlitt's books on the failure of Keynesianism and the "new" economics, followed by his prophetic collection of *New York Times* editorials on the shortcomings of Bretton Woods, have given us plenty of warning of new inflation crises to come.

Other names that recur more than once in my thirty-year list of reviews are those of Russell Kirk, Frank Meyer, and Otto Scott. It was Meyer's

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voice in the Sixties that sought to hold conservatives and libertarians together, reminding us that virtue is individually meaningless if it has to be imposed by State force. Kirk professes to a disdain for economists, but his books (*The Roots of American Order, Eliot and His Age* and *Decadence and Renewal in the Higher Learning*, all of them reviewed in *The Freeman*) help define the social framework needed to sustain freedom that Wilhelm Roepke talks about in *A Humane Economy*, also re-reviewed here. Otto Scott is another who is concerned with the cultural prerequisites of a free society. Two of his books, *The Secret Six* (the abolitionists who backed John Brown), and *Robespierre* (the French revolutionary terrorist), show us that we make a mistake to suffer fools gladly. The third Scott book which I reviewed in *The Freeman*, *The Creative Ordeal*, which is an account of the Raytheon Company's development of radar, is about good men who saved the western democracies from defeat in World War II. It shows the constructive side of Scott's thinking.

Going back over *The Freeman* reviews, I am struck by the fecundity of the Fifties. I reviewed Ayn Rand's novel, *Atlas Shrugged*, in October of 1957, making the point that it was a startlingly great fable about the human prerequisites for free development. Almost as an afterthought I wondered at the Randian objection to private charity, which seemed to me to be inconsistent with her general philosophy of voluntarism. Ayn Rand let me know that she did not like the criticism. She had not digested the meaning of Leonard Read's "anything that's peaceful."

Another accomplishment of the Fifties which was noted in a *Freeman* review was Karl A. Wittfogel's monumental study of *Oriental Despotism*. Wittfogel related this despotism to State control of the people's water supply. Wittfogel's researches into what had happened in ancient China to make serfs of the people came out at a time when the Fabians in England, and the followers of Norman Thomas in America, were chattering about the need for government to take control of the "commanding heights of industry." Socialists are still oblivious to Wittfogel, just as they are oblivious to Louis Baudin's *A Socialist Empire: The Incas of Peru*, which we reviewed in the early sixties.

In the Fifties we lamented the waste of John Kenneth Galbraith's good style in *The Affluent Society* on such nonsense as the contention that people can't be trusted to make their own economic and cultural decisions. In spite of Galbraith, however, some of the anti-capitalist clichés were dying at the end of the Fifties. Larry Fertig's *Prosperity Through Freedom* helped with the killing. Matthew Josephson, who had popularized the thesis that the big industrialists of the Nineteenth Century were all robber barons, seemed to be switching his ground in his laudatory *Edison*. T. A. Boyd's *Professional Amateur*, a study of Charles Franklin Kettering (Boss Kett), and his subsequent collection of Kettering's speeches in *Prophet of Progress*, were two excellent testimonials to the truth that inventiveness comes when its sources in individual freedom are unhampered. Kett, the creator of the self-starter, did his best inventing in a barn, and always resisted being institutionalized by General Motors. And Jane Jacobs, in *The Death and Life of Great American Cities,* made the individualized point that people took better care of themselves in unplanned neighborhoods, where they could do their own policing and where shops and houses were intermingled.

In the Seventies it was good to welcome in *The Freeman* George Roche's analysis of "enmassment" in *The Bewildered Society.* And we had a consummate summary of twenty-five

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years in George Nash's *The Conservative Intellectual Movement Since 1945*. (Nash later did a first-rate work on Herbert Hoover's career as a mining engineer.) Another good summary, reviewed in *The Freeman* in 1976, was the *Plain Talk Anthology*, which included the first map of the Soviet Gulag Archipelago (this was some years before Solzhenitsyn). Laurence Beilenson's *The Treaty Trap* warned us against putting our trust in scraps of paper. Felix Morley, one of the founders of *Human Events*, timed his autobiographical *For the Record* for review in 1979. And the resurrrection in 1979 of an old book of the Nineties, Auberon Herbert's *The Right and Wrong of Compulsion by the State,* made one wonder at the obtuseness of the British Fabians (including George Bernard Shaw and H.G. Wells) in rejecting the luminously clear Auberon Herbert arguments that might have saved England from fifty years of welfarist state torpor.

We come down to the Nineteen Eighties, when some really excellent books have been published. A New Zealander, Ronald Nairn, who has had farming experience in Oriental countries, wrote a book which, if it were only heeded, could liberate peasants everywhere to produce a world plenty. It is called *Wealth of Nations in Crisis*, and it has had the commendation of Hayek. Richard Cornuelle, in his *Healing America*, brought his *Reclaiming the American Dream* up to date in some stirring appeals to voluntary action that should have been pushed by Reaganites all over the country. In 1981 we had Bert Wolfe's fascinating story of *A Life in Two Centuries*. It took a long time for Bert Wolfe to wriggle free of his Communist connections, but the time was profitably spent for what it reveals to us about Soviet methods. Anne Wortham, a black sociologist, in another 1981 book, *The Other Side of Racism*, has made an eloquent plea to blacks to put their trust in their own individualism lest they be sold back to a big plantation run by the coercive state.

The Friedmans, Milton and Rose, deserted economics for the moment to take a flier into political science with their *The Tyranny of the Status Quo*, the thesis being that if a new Administration can't put through a program in its first 100 days it will get very little for all its pains. Rael and Erich Isaac, in *The Coercive Utopians,* have shown how well-meaning perfectionists can betray us to the totalitarians. Warren Brookes, in *The Economy in Mind*, has proved that wealth starts with ideas in people's heads. George Gilder's collection of marvelous yarns about individual creativeness, called *The Spirit of Enterprise*, backs up Warren Brookes' contention to the hilt. So does Rabushka's *From Adam Smith to the Wealth of America*. Sven Rydenfelt's *A Pattern for Failure: Socialist Economies in Crisis*, makes it plain why starvation comes to those who rely on government control of agriculture (the prices are invariably fixed against the peasants).

It was Leonard Read's *Freeman* that has given me the freedom to keep up with all the permutations of anti-Statist and anti-interventionist thought for thirty years. And what of Leonard's own books, which numbered more than twenty? I have reviewed many of them, to my profit and pleasure. Leonard had a marvelously epigrammatic faculty for putting complex things into a single sentence. When he remarked that "helping people to become helpless is not an act of kindness," he anticipated some 300 pages of Charles Murray's recent *Losing Ground*. This is not to say that Murray's book was unnecessary—lots of people need elaborate statistical proof before they can accept an epigram. □

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**Equality and Liberty: A Defense of Radical Egalitarianism**
by Kai Nielsen
Rowman & Allanheld, Totowa, NJ 07512 • 1985 • 320 pages, $27.50 cloth

*Reviewed by John Hospers*

Equality of consideration, equality before the law, equality in human dignity or worth, are discussed by this author, but they are not the distinctive thrust of the book. The main thesis is that every individual—or every family, one isn't always sure which (and it makes a great practical difference which is meant)—should receive an approximately equal income. It is *economic* equality which the book is primarily concerned to defend. What is to be equally possessed is money, or articles of one's choice purchasable with money. The money is presumably to be doled out by the government after being extracted from each citizen in taxes—though Nielsen says that things like hospitals and parks and playgrounds should be taken care of before such a distribution is made.

To establish his case, Nielsen relies heavily on "our commonly held reflective moral intuitions." But many persons, myself included, have moral intuitions sharply at odds with Nielsen's.

For example: If a man repeatedly spends his entire allotment on cocaine or heroin, Nielsen would say that he should still receive an equal portion from the common store. The man who works hard must thus be forced to spend a part of his earnings to sustain the other's drug habit. I consider this morally shocking in the extreme; but how else are we to interpret Nielsen's assertion that "income and wealth is to be so divided that each person will have a right to an equal share"? (p. 289)

If our moral intuitions are so widely at variance, we are left with an unbridgeable impasse from the start, with presumably nothing more to discuss. It is just possible, however, that we disagree (at least in part) on matters of fact rather than moral intuitions. I suspect that if Nielsen knew the full implications of his stated views, he would shrink from the conclusions that he now espouses.

One basic fact is that human beings must work in order to live. A second is that the main thing which motivates people to work is the desire to have a decent life for themselves and their families, and some security for the future. If people know that the fruits of their labor will be taken from them in the name of some cooperative enterprise to which they never consented, their motivation to produce will be undermined, and any enterprises they have planned which would involve risking their savings (and possibly giving others employment) would be abandoned as no longer worth the trouble. And a third fact is that throughout most of human history the earth has not produced enough to feed its population, with resultant malnutrition and starvation; only in a technological society, where machines do most of the work of human muscles, can a large population be sustained on a relatively high economic level.

A fourth fact is that human beings are unequal in their incentives, capacities and abilities: Give one person $1,000 and he will work hard and double the amount in a year; another person will spend it in a year. When the next redistribution occurs (to make sure that everyone's income is equal), the person with initiative and imagination who has just had his earned income taken from him for his pains will

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be less motivated to labor the next time round; he will have every motivation to be penniless by the time of the next redistribution so that he can collect the full amount. Inevitably before long there will be nothing left to distribute, production will falter and cease, and everyone will be equal at base zero!

Nielsen is committed to the socialist state. Yet the socialist state has never been able to deliver the economic abundance which Nielsen's utopia requires. His desire for human welfare and his desire for socialism in all nations are incompatible. The great economic leaps forward achieved by human beings—chiefly in North America and Western Europe in the last couple of centuries—have been made possible only to the extent that the free market operated. While other nations continued to be unable to feed themselves, capitalist America during the nineteenth century doubled its per capita income approximately every 30 years.

Nielsen does concede that his egalitarian state could not come into existence until "we first have the productive capacity and resource conditions" (p. 286) to put it into practice. Since the immense productivity of the free market is so repeatedly proved throughout history as to be without serious question (even Marx conceded it), does this mean that according to Nielsen we first need a free market for its golden eggs, before killing the goose later in the interests of equal distribution? What happens to those who worked the hardest to better their condition? Are they to be ripped off to effect equal distribution for the productive and nonproductive, the wasteful and the thrifty, alike? And is *this* justice?

Knowing they will be ripped off, people will lack any incentive to work hard; the production on which forced distribution depends will never occur. "In a society of abundance," he says (p. 306), "everyone will be well off and secure." The problem is that no such abundance can be created in the socio-economic system he favors. The moral ideal Nielsen espouses requires for its implementation a socio-economic base which he rejects.

Professor Nielsen's book is the culmination (but surely not the end) of a whole series of books—by Michael Bayles, Ronald Dworkin, Nicholas Rescher, Richard Brandt, and others—recommending egalitarianism in one form or another. They are so interested in *distributing* the goods produced by others that they have paid scant attention to the conditions necessary to ensure continued production. Having been brought up in the affluence made possible by capitalism, it has become fashionable to denigrate the source of that affluence, and so they strive to ensure that no such affluence will ever occur again. It is all very chic, very trendy. It is easy to get full professorships for doing this sort of thing, and to impress students with one's virtue and humane concern. Socialist professors themselves, far from being in want, find it egogratifying to recommend these egalitarian utopias, especially when doing so costs them nothing, and impresses students with how superior they are to the wicked world which pays their salaries. If only these professors could be philosopher-kings and rule mankind! But it is fortunate, indeed, that philosophers—from Plato's *Republic* to Nielsen's latest utopian tract—are in no such position. Had their ideas ever been put into practice they would long since have destroyed the world. □

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## My Favorite Magazine

Ever since John Williams began writing for *The Freeman*, I've gained tremendous knowledge of the freedom philosophy. His articles are most lucid and it would be difficult to pose arguments against his many theses.

I was particularly impressed with "The Disease From Which Civilizations Die," (September 1985). The messages contained should be shouted from the housetops.

I was fortunate to attend a FEE seminar in 1972 on a scholarship when the late Leonard Read was president. What a gifted man he was in explaining the freedom philosophy.

Thanks to John Williams and your other contributors for such carefully thought out ideas which appear in *The Freeman*. It is my favorite magazine, and one which I promote among my friends.

*Irene Green*
*Coeur D'Alene, Idaho*

## Productive Justice

*The Freeman* is to be commended for providing an unabashed free-market analysis of the recent draft of the Catholic bishops' pastoral on the U.S. economy. Both Messrs. Baird and Kern raise a number of important questions which one hopes will be taken into consideration by the bishops in the subsequent and final draft. Indeed, it would appear that, at least in some respects, the bishops have taken to heart a few of the concerns expressed by advocates of the free-market, concerns which were glaringly absent in the previous draft. While there appears to be a move toward utilizing private sector solutions to social problems, the bishops continue to approach the question of economics as though it were a zero-sum game, which leads them to presume that if someone has more, this can only be the result of the fact that someone else has less. Such an assumption on their part should, at the very least, be questioned and defended, yet in this regard they are silent. Great things could happen if the bishops came to see that the market is not stagnant. It is dynamic and growing: people really do "make money."

Mr. Baird notes that at the heart of the bishops' concern is what an economic system does for and to *people*, and as teachers of the Gospel they rightly focus their attention on *poor people*. The question is, then, how can the poor be lifted from their poverty? The answer clearly is, produce more wealth. Yet this is not the primary answer the bishops give. In favoring governmental (i.e., non-productive) solutions, and rarely exploring market (i.e., productive) possibilities, the bishops tend to fall back on various kinds of governmental experiments which *distribute* rather than *produce* wealth. The readers of *The Freeman* are all too familiar with what happens to the productive sector when this occurs.

The Church has developed a keen sense of distributive justice. When will they explore the possibilities of productive justice?

*Robert A. Sirico*
*Washington, D.C.*

## Freedom and the Law

Professor Joseph Fulda has provided a valuable contribution to libertarian legal theory in his article on "Declarative Law" (November). The superiority of a system which holds people responsible for their actions, rather than merely ordering them about, is one which cannot be stressed enough.

What is not discussed is the difficulty of imposing legislative notions of legal responsibility upon sponta-

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neously evolving legal processes. While the legislative and executive branches may properly assume a role in codifying principles which develop through judicial decision-making, they may cause more harm than good when they attempt to reconstruct the common law. Ignorance of this principle flies in the face of such landmark works as Bruno Leoni's *Freedom and the Law*, and Friedrich Hayek's *Law, Legislation and Liberty.*

While Professor Fulda does much to illuminate the form which a just and libertarian law code would take—that its laws would be declarative and be founded upon the notion of responsibility—he does little to address the way in which the system would develop. By stressing the means by which legislators can reinstitute the "declarative law," he obscures the importance of spontaneously grown legal standards.

*Kenneth L. Marcus*
*Williams College*
*Williamstown, Massachusetts*

## The American Republic

Has *The Freeman* lost its way? Recently I have noticed essays that elevate the notion of democracy.

Kenneth McDonald's essay, "America's Two Elites" (November) goes so far as to state, "America, after all, is a democracy." Sorry, Mr. McDonald, but the United States of America is a republic. Read the Constitution of the United States. The words democracy and democratic are not part of the text.

Democracy is majority rule and democracies ultimately crush the rights of the minority. Unfortunately, we have become more democratic in recent years; and because we have become more democratic we have suffered a significant loss of liberty and gained a weighty burden of forced collectivism.

*William F. Kerschner*
*Elm Grove, Wisconsin*

## Misgivings

I have misgivings about the inclusion of letters in *The Freeman*. I'm afraid they will dilute and detract from the flavor unique to your monthly.

Of course, you will probably print this and set up a contradictory self-reference thereby. Ha-ha. □

*Robert Goodman*
*Bronx, New York*

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Let us hear from you! We would like to share with readers the most interesting and provocative letters we receive regarding *Freeman* articles and the issues they raise. Since FEE's activities encompass much more than just publishing *The Freeman*, we will also include reactions to other FEE activities.

Limited space will preclude our printing all the thoughtful letters we receive. Letters may be edited for purposes of clarity or space. And opinions expressed are not necessarily those of *The Freeman*. Address your letters to: To the Editor, *The Freeman*, The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

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# Ideas on Liberty

A new public opinion must be created privately and unobtrusively. The existing one is maintained by the press, by propaganda, by organization, and by financial influences which are at its disposal. The unnatural way of spreading ideas must be opposed by the natural one, which goes from man to man and relies solely on the truth of the thoughts and the hearer's receptiveness for new truth. . . .

ALBERT SCHWEITZER

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*"It cannot be repeated too often that nothing is more fertile in prodigies than the art of being free; but there is nothing more arduous than the apprenticeship of liberty."*

—ALEXIS DE TOCQUEVILLE
*Democracy in America*

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